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Oshawa

The Oshawa Group Limited Annual Report

for the fiscal year ended January 28, 1978

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Results in Brief

(In thousands of dollars)	**January 28, 1978 (53 weeks)**	January 22 1977 (52 weeks)	% Increase
Sales	**$ 1,205,805**	$ 1,077,575	11.9
Earnings Before Extraordinary Items	**5,630**	2,621	114.8
Earnings Per Share Before Extraordinary Items	**0.83**	0.39	112.8
Extraordinary Income	**3,641**	379	—
Net Earnings	**9,271**	3,000	209.0
Net Earnings Per Share	**1.37**	.44	211.4
Dividends Paid Per Share	**0.34**	0.34	—
Number of Shares Outstanding	**6,749,904**	6,749,904	—

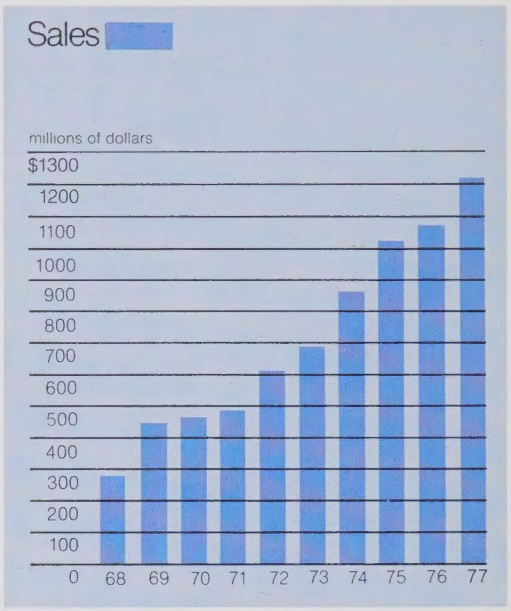
NUMBER OF STORES AT YEAR END	
IGA Associates	**366**
Other Franchise Food Markets	**551**
Company-owned Food Markets	**98**
Non-affiliated Food Markets	**1283**
Combination Food & Department Stores	**2**
Department Stores	**42**
Drug Marts	**14**
Pharmacies	**25**
Health & Beauty Aid Stores	**6**
Restaurants & Snack Bars	**66**

Year In Review

Earnings of The Oshawa Group Limited improved in 1977. Food division earnings were higher throughout the year and a strong fourth quarter performance by the department store division and Consumers Distributing Company (National) Limited contributed materially to the final result. Earnings were also favorably affected by income tax reductions due to the new three percent inventory tax credit.

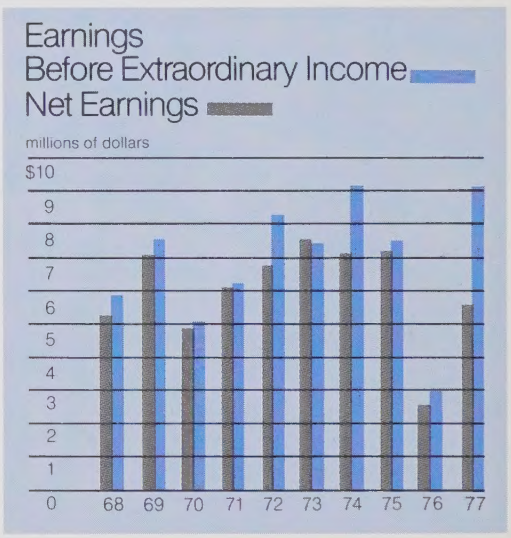
Sales

Record consolidated sales of $1,205,805,000 were 11.9 percent ahead of 1976. Sales increases of 15.1 percent in wholesale food, 6.9 percent in retail food, 15.2 percent in institutional food and 10.2 percent in general merchandise contributed to the improvement. In addition, 1977 was a 53-week fiscal year.



Sales by category in thousands of dollars were as follows:

	1977	1976	% Change
Wholesale Food	**$ 542,828**	$ 471,630	15.1
Retail Food	**334,913**	313,442	6.9
Institutional	**67,842**	58,884	15.2
General Merchandise	**248,087**	225,147	10.2
Other	**12,135**	8,472	43.2
	$1,205,805	$1,077,575	11.9



Sales by Division in thousands of dollars were as follows:

	1977	1976	% Change
Bolands	**$ 62,603**	$ 57,241	9.4
Codville Distributors	**148,560**	120,802	23.0
Hudon et Deaudelin Ltée	**255,593**	222,460	14.9
Ontario Food Division	**440,647**	415,941	5.9
Hickeson-Langs Supply Company	**36,610**	31,326	16.9
Langs Cold Storage	**1,912**	1,651	15.8
The Ontario Produce Company	**35,054**	30,736	14.0
Model Laundry	**1,476**	1,450	1.8
Gas Bars	**4,195**	4,102	2.3
Kent Drugs Limited	**21,099**	18,982	11.2
Restaurants	**8,083**	7,626	6.0
Towers Department Stores	**214,710**	194,437	10.4
Coinamatic Laundry Equipment Limited, U.K.	**12,135**	8,472	43.2
Inter-divisional sales	**(36,872)**	(37,651)	
	$1,205,805	$1,077,575	11.9

Sales continued to be affected by competitive activity in all wholesale and retail food divisions.

Ontario Food Division sales in the earlier part of the year were influenced by strong chain store competition and a less buoyant performance of tourist area stores. In the latter part of the year, however, increases were achieved through aggressive pricing and promotional programs, with customer counts climbing above the previous year's level. This trend has continued into the first quarter of 1978.

Hudon et Deaudelin Ltée sales improvement was the result of a revitalized franchise program, the supplying of a new chain customer in the Montreal area and the opening of Les Aliments Hypermarché in Décarie Square.

Bolands in the Maritimes initiated an aggressive campaign for additional accounts in New Brunswick to be serviced from its new Moncton warehouse. This is expected to have a positive effect on sales in the current year.

Codville Distributors continued to show significant sales gains, aided by the acquisition in April of the assets and business of Jansen Produce Company and Jobbers Fruit Company of Winnipeg.

The institutional group recorded a 15.2 percent increase in sales with all divisions contributing to the improvement.

Hickeson-Langs Supply Company, with a new marketing program, gained 16.9 percent in sales and resumed a growth trend which has continued into 1978.

Langs Cold Storage operated at capacity most of the year and as a result the London storage plant is being expanded.

The Ontario Produce Company, consisting of two wholesale produce operations at the Ontario Food Terminal, a vegetable packaging plant in Bradford and a mushroom farm in Pickering had a sales increase of 14 percent.

Sales in the general merchandise group which includes Towers Department Stores, Kent Drugs Limited, the Restaurant Division and Gas Bars, were up 10.2 percent.

Early in 1977 Towers launched a marketing plan to increase traffic flow and market share. This produced a steady recovery which has continued into the first quarter of 1978.

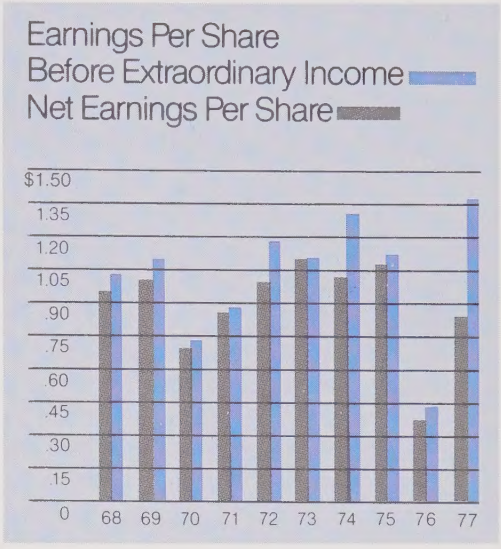
The Restaurant Division, consisting mainly of units within Towers stores, followed a similar pattern.

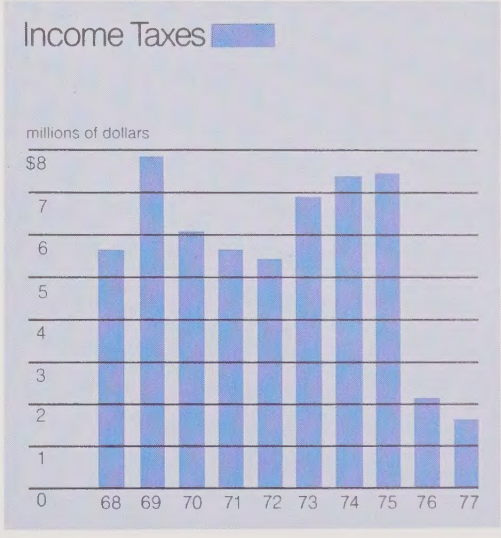
Kent Drugs Limited continued to show improvement, filling a record number of prescriptions.

Coinamatic Laundry Equipment Limited, U.K. achieved highly satisfactory sales, reflecting the improved British economy and a successful new beverage program.

Earnings

Consolidated earnings before extraordinary items increased to $5,630,000 (83¢ per share) from $2,621,000 (39¢ per share) in the previous year. After extraordinary items of $3,641,000, net earnings for the year were $9,271,000 ($1.37 per share) compared with $3,000,000 (44¢ per share) in 1976.





Improved results were achieved in all divisions except general merchandise. Oshawa's 50 percent share of Consumers Distributing Company (National) Limited earnings amounted to $1,738,000 (including $210,000 for inventory tax reductions) compared with $585,000. Income taxes were reduced by $1,228,000 due to the new three percent inventory tax credit.

Financial Position

Working capital of $18,284,000 was the highest in the Company's history, improving by $4,936,000 during the year. Details of changes are shown on Page 18. Capital expenditures of $11,984,000 included $3,240,000 to complete the Décarie Square Shopping Centre and $842,000 for the construction of a new warehouse in Moncton, N.B.

Inventories of $103,055,000 reflected an increase of $16,134,000 during the year, largely due to new stores and price inflation.

The 5½% subordinated convertible sinking fund debentures were redeemed on June 14, 1977. Subsequently, a $5,000,000 three-year term bank loan was arranged. Total long term debt (including current portion) was reduced by $1,685,000.

Dividend and Shareholders' Equity

Dividends were paid at the same rate as in the previous year — 34¢ per share, amounting to $2,295,000. There were no changes in outstanding capital stock during the year. At January 28, 1978, Shareholders' Equity was $88,818,000 or $13.16 per share.

Expansion and Development

A Food City unit was opened in Toronto and one in Welland, Ontario was converted to a Bag and Carry warehouse store. A program to modernize Food City markets was commenced with two units renovated in 1977 and 20 more scheduled for 1978.

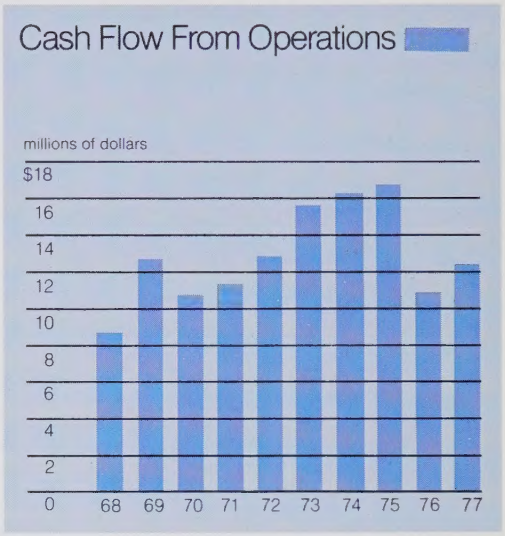
IGA Associates have also embarked on a major modernization program. For the first time in Canada, IGA stores will have similar exteriors, interior decor and staff uniforms. In the Ontario Food Division, more than 50 units are being renovated with another 37 scheduled for later this year. This program is also underway in other food divisions. Concurrently, a more aggressive approach to advertising has been introduced with encouraging initial results.

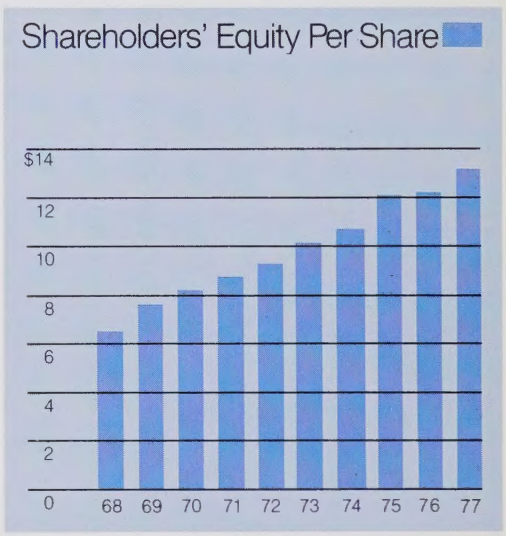
In Quebec, the Hudon et Deaudelin Ltée franchise division was reorganized. A new and substantially strengthened 100-store dealer group was formed by combining the largest IGA markets with Boniprix stores. The IGA/Boniprix group, with upgraded stores and strong competitive pricing, provides a sound basis for future growth in the Quebec market.

In the Maritimes, the Ranch stores in the Halifax/Dartmouth area were converted to the IGA program. Three units were sold to dealers and one retained as a corporate store.

A 40,000 square foot distribution centre was opened in Moncton, New Brunswick in January 1978 as a base for expanding wholesale operations.

Codville Distributors opened a new 64,000 square foot distribution centre in Regina. Replacing an out-dated multi-floor warehouse, it provides an efficient facility with freezer and cooler capacity.





1978 plans call for modest expansion with emphasis on consolidation of operations and increased productivity. New retail outlets include a Towers Department Store and a Food City in Bedford, Nova Scotia (opened in April, 1978) and two Drug City units in Toronto. A 20,000 square foot expansion of the Langs Cold Storage freezer plant in London will also be completed in 1978.

Consumers Distributing Company (National) Limited

The Company's 50 percent interest in the outstanding shares of Consumers Distributing Company (National) Limited was purchased by the latter for $8,000,000 on January 27, 1978. Cash of $4,500,000 was received on closing and the remaining $3,500,000 will be paid in instalments over a four year period with interest.

Oshawa's results in the year in review include $1,738,000, being 50 percent of Consumers Distributing Company (National) Limited profits which have been accounted for on an equity basis.

After taking into account last year's profit, proceeds on sale of these shares exceeded book value by $3,826,000 and this has been included in extraordinary items.

Consumers Distributing Company Limited

Concurrent with the sale of Consumers Distributing Company (National) Limited shares, Oshawa purchased 600,000 common shares of Consumers Distributing Company Limited for $3,000,000.

Directors and Management

It is with deep regret that we record the passing of Maurice Wolfe, co-founder of the Company who for more than 60 years served as an inspiration to management and staff. His counsel will be missed.

During the year Harvey S. Wolfe resigned as President to pursue private business interests and the Chairman assumed the combined role of Chairman and President.

Allister P. Graham was appointed Group Vice-President Food Divisions and is responsible for Bolands, Codville Distributors, Hudon et Deaudelin Ltée and the Ontario Food Division.

Charles Davies returned to Hickeson-Langs Supply Company as President and General Manager.

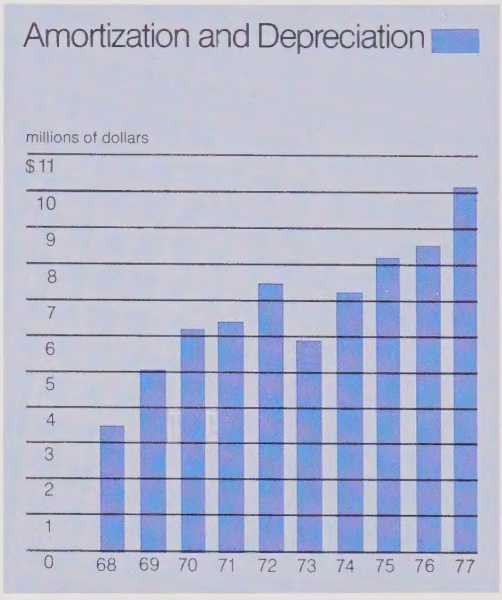
Outlook

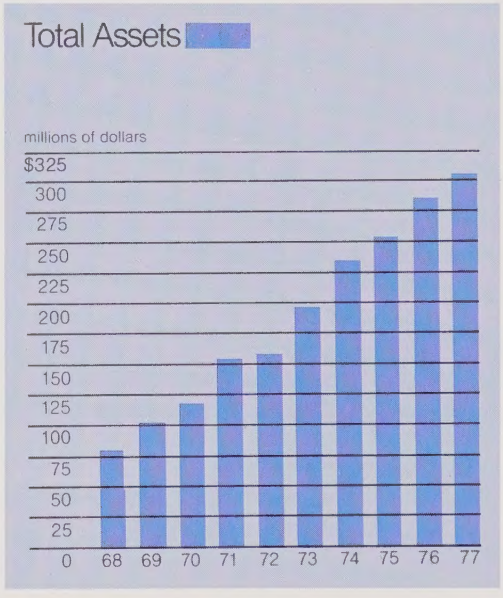
Political and economic conditions continue to contribute to an uncertain business climate. The upward trend of food prices reflects increased costs as well as a devalued Canadian dollar. Strong competition in retail food and general merchandise remains unabated. Management has taken these factors into account in its sales, marketing and investment strategies.

Sales and profit performance in the first quarter of the current fiscal year supports expectation for further improvement in 1978.

The success of our business is dependent upon the people associated with it and we deeply appreciate the dedicated efforts of staff, loyalty of customers, co-operation of suppliers and support of shareholders.

Ray D. Wolfe
Chairman and President





Oshawa People

The Oshawa Group Limited is a people-oriented company, employing thousands and serving hundreds of thousands more.

They come from every strata of society and represent many national origins, creeds and colors. While bound by common purpose and objectives, each is as individual as his or her aspirations and interests.

On the following pages is a small sampling of the people that constitute Oshawa and the interesting and often novel ways they have found to enrich their own lives and those of others.

Mort Greenberg

Salesman: Midland-Allied Fruit Co., Winnipeg

To the grocery trade, Mort Greenberg is an affable salesman in Codville's Midland-Allied Fruit Company. But to theatre goers he is Oscar Madison in The Odd Couple, Harry Brock in Born Yesterday, Joe Benjamin in God's Favorite or Harry Edison in Prisoner of Second Avenue, one of Winnipeg theatre's principal leading men. Mort has been a "produce man" for 20 years, the past four with Midland-Allied. Ten years ago he set out to fulfill a long-standing ambition to act. He auditioned for a small part in Born Yesterday and ended up in the role of the male lead. He has been a leading man ever since, frequently playing opposite his wife, Vickie, herself an accomplished actress. In recent years there have been offers for a full professional involvement in theatre but Mort is a family man first and believes professional theatre creates too many disruptions. Besides, he says, he wants theatre to be fun, not work.

Above, Mort Greenberg (right) as Oscar Madison in "The Odd Couple."

Carol Simick

Store Accounting Clerk: Ontario Food Division, Toronto

Carol Simick is a hockey mom with a difference. She doesn't just get the kids ready, drive them to the rink and then cheer them on. She's involved "right up to my neck." Carol has three sons playing organized hockey and a husband coaching. "Our family lives and breathes hockey. That's all anyone ever talks about around our house. It was a case of getting involved or be an outsider in your own family." So Carol became a team manager in the Humber Valley Hockey Association. She loves it, her charges adore her and attending three games on a Saturday is not unusual. To Carol, her new role is not at all a womens' lib thing. "It has brought me closer than ever to my family while at the same time involving me in our community in a very satisfying way. And once you start, you're hooked. Working with kids, especially your own, keeps you young, committed and very, very busy."

Margaret Ferrie

Assistant Manager: Shoreham Drug City, Toronto

Margaret Ferrie is one of those rare very busy people who always has time to help someone else, who squeezes 30 hours of activity out of every 24-hour day. She is a woman with a remarkable social conscience. In addition to her job at Drug City and looking after a husband and five children, ages 13 to 23, Margaret is deeply involved in an almost unbelievable swirl of community activities. As secretary of the Black Creek Venture Group, she shares responsibility for lunch programs and after four programs for children with working mothers; dancing, crafts and gym classes at the Driftwood Community Centre; programs for handicapped children; Friday night teen dances; swimming supervision and a baseball team. And she is active in each and every program. In her quiet Dundee brogue, she modestly brushes aside wonder at her capacity for work in aid of others. "I guess I just have too much energy to slow down. Besides," she smiles, "the children are so nice to work with." Margaret Ferrie is truly an unforgettable person.

Julie Bowerman

Part-time Parcel Checker: Towers Department Store, Woodstock, Ontario

Julie Bowerman, 19, is the pride of Towers Department Store and the Central Ontario city of Woodstock. She is one of Canada's top 10 figure skaters and soon may be touring Europe in a professional ice show. Julie practices five days a week at the Toronto Cricket, Skating and Curling Club, works Saturdays at Towers of Woodstock to help cover expenses and relaxes with her family on Sundays — when she's not competing and she has been competing for most of her life. This year she advanced to the Central Canada Divisional Championships in Winnipeg where she won the figures event and finished fifth overall. She hopes to turn professional with the Holiday on Ice Show in Europe and if she doesn't make it, plans to start a full time figure skating teaching career in the fall. Actually, she has been teaching and coaching both in Toronto and Woodstock for years and is recognized as one of the most disciplined and accomplished figure skaters in the country.

Wilfrid Paquin

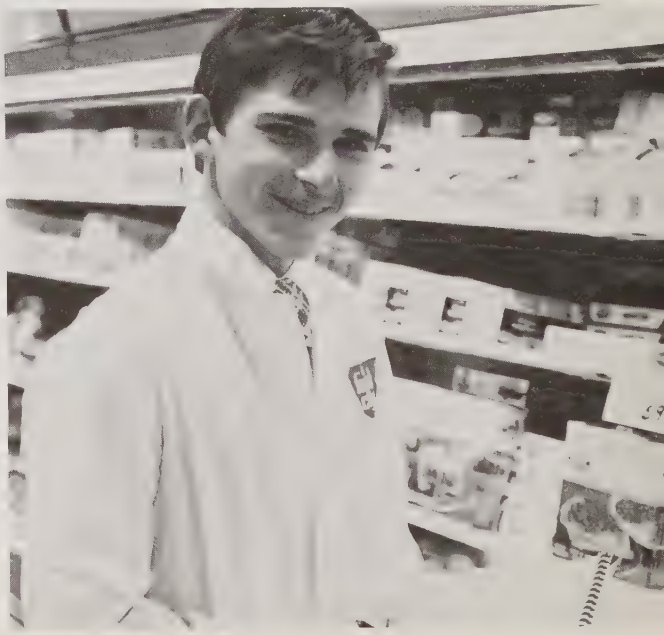
Projects Coordinator:
Hudon et Deaudelin Ltée.
Montreal

Wilfrid Pacquin is Projects Coordinator at Hudon et Deaudelin and he is also a very gifted artist. And although he has never seriously considered depending on his talent as a sculptor for a living, Wilfrid has received widespread recognition for his work, displayed in numerous public buildings in Quebec and in Ottawa. That he was talented was evident from childhood but it wasn't until after World War Two that he started taking evening art lessons while working in his father's grocery store. So pronounced was his aptitude that by the end of his first year of classes, he was competing with the fifth year graduating class. He has completed more than 20 busts and statues. His bust of the late Premier Daniel Johnson is on view in a high school bearing the former Premier's name, and a bust of the late Gen. A.G.L. McNaughton, Commander of the Canadian Army in Europe in World War Two is displayed at the National Research Council in Ottawa.

James Alexander Waters

Assistant Night Crew Manager: City Centre Food City, Bramalea, Ontario

At the age of five, Al Waters' pilot father took him on a flight and let him hold the stick. It was an exhilarating experience and Al was hooked on flying. At 13 he was proficient enough to make his first dual take-off and landing and three years later, with a student pilot permit, was flying solo. At the ripe old age of 17, Al was a licensed private pilot. "I love flying but it is strictly a hobby and I knew that I needed something else for a stable career," he says. So at 16 he became a part-timer at City Centre Food City and five years later joined full time staff. Now, age 23, he is Assistant Night Crew Manager and working hard to get ahead both in the food industry and as a pilot. He has earned endorsements for multi engine, night and float flying and last year was granted a commercial pilot's license. He frequently flies his father's Cessna 177 Cardinal and from time to time takes his fellow employees on hops as far away as Myrtle Beach, S.C. It is no surprise that Al is very popular at City Centre Food City.



From left, Dean Harkness, Roy Arsenault and Tony Richard.

Dean Harkness

Loss Prevention Officer: Towers Department Store, Summerside, P.E.I.

It helps to live in Prince Edward Island if you happen to be a blue fin tuna fishing devotee for it is in the waters of the Gulf of St. Lawrence that these giant beauties of the deep abound. However, catching one is another matter. Some fishermen pursue blue fins for a lifetime without success but not so Dean Harkness. At age 24, he has three to his credit — 933, 814 and 795 pounds. Even more remarkable is the fact that both Dean and Roy Arsenault, Grocery Manager of the same store, caught one the same day and for Roy it was his first attempt. Tony Richard, Grocery Clerk who helped Roy land his 807 pounder, has two catches to his credit. Tuna boat skipper Clarence Gauthier of North Rustico, P.E.I. considers this trio as among the most expert of his world-wide clientele. At Towers of Summerside they are not alone in the annual quest of the blue fin. Wayne Arsenault, George MacNeil, Russ Oickle, Bruce Rae and Mike Arsenault are also accomplished tuna fishermen. It shouldn't be difficult to guess the principal subject of discussion on coffee breaks in this store.

Consolidated Statement of Earnings

(in thousands of dollars)	**Year Ended January 28, 1978 (53 Weeks)**	Year Ended January 22, 1977 (52 Weeks)
SALES (note 6)	**$1,205,805**	$1,077,575
COST OF SALES AND EXPENSES		
Cost of sales and expenses before the undernoted items:	**1,181,881**	1,058,046
Interest (note 7)	**9,922**	8,377
Depreciation	**9,812**	8,465
Amortization of goodwill	**98**	89
	1,201,713	1,074,977
	4,092	2,598
Interest and dividends earned	**1,206**	1,578
EARNINGS FROM OPERATIONS BEFORE INCOME TAXES	**5,298**	4,176
Income taxes (note 8)	**1,719**	2,073
EARNINGS FROM OPERATIONS	**3,579**	2,103
Equity in net earnings of Consumers Distributing Company (National) Limited	**1,738**	585
Equity in net earnings (loss) of other companies	**313**	(67)
EARNINGS BEFORE EXTRAORDINARY ITEMS	**5,630**	2,621
Extraordinary items (note 9)	**3,641**	379
NET EARNINGS	**$ 9,271**	$ 3,000
Earnings per share before extraordinary items	**$0.83**	$0.39
Earnings per share	**$1.37**	$0.44
Number of shares outstanding	**6,749,904**	6,749,904

The accompanying notes and summary of significant accounting policies are an integral part of the Consolidated Financial Statements.

Consolidated Statement of Retained Earnings

(in thousands of dollars)	**Year Ended January 28, 1978 (53 Weeks)**	Year Ended January 22, 1977 (52 Weeks)
BALANCE, BEGINNING OF YEAR	**$21,846**	$21,141
Add: Net earnings for year	**9,271**	3,000
	31,117	24,141
Less: Dividends—Class A shares	**2,237**	2,237
—Common shares	**58**	58
	2,295	2,295
BALANCE, END OF YEAR	**$28,822**	$21,846

The accompanying notes and summary of significant accounting policies are an integral part of the Consolidated Financial Statements.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of The Oshawa Group Limited as at January 28, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. For The Oshawa Group Limited and for those other companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other companies consolidated or accounted for by the equity method, we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at January 28, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 18, 1978

Wm. Eisenberg & Co.
Chartered Accountants

Consolidated Balance Sheet

(in thousands of dollars)	**January 28, 1978**	January 22, 1977
Assets		
CURRENT ASSETS		
Cash	**$ 923**	$ 934
Marketable securities (at cost which approximates market value)	**509**	631
Accounts receivable	**38,089**	37,671
Loans and mortgages receivable—current portion	**4,191**	2,548
Inventories	**103,055**	86,921
Real estate held for sale	**3,127**	4,968
Prepaid expenses	**3,967**	3,822
	153,861	137,495
INVESTMENTS AND OTHER ASSETS		
Loans and mortgages receivable	**8,189**	7,359
Investments (note 1)	**4,572**	4,919
Deferred rent and financing costs	**497**	614
	13,258	12,892
FIXED ASSETS (note 2)		
Land, buildings, equipment and leasehold improvements	**193,846**	187,475
Less: Accumulated depreciation	**58,507**	51,324
	135,339	136,151
GOODWILL	**385**	379
	$302,843	$286,917

The accompanying notes and summary of significant accounting policies are an integral part of the Consolidated Financial Statements.

(in thousands of dollars)	**January 28, 1978**	January 22 1977
Liabilities		
CURRENT LIABILITIES		
Bank indebtedness and notes payable (note 3)	**$ 48,184**	$ 45,487
Accounts payable and accrued liabilities	**81,581**	74,449
Income taxes payable	**2,908**	883
Deferred income taxes	**1,055**	1,100
Current portion of long term debt	**1,849**	2,228
	135,577	124,147
LONG TERM DEBT (note 4)	**70,656**	71,962
DEFERRED INCOME TAXES	**7,501**	8,754
MINORITY INTEREST IN SUBSIDIARY	**291**	212
Shareholders' Equity		
CAPITAL STOCK (note 5)		
Authorized		
11,906,100 Class A non-voting shares, without par value		
912,000 Common shares, without par value		
Issued		
6,578,528 Class A shares	**59,033**	59,033
171,376 Common shares	**44**	44
	59,077	59,077
CONTRIBUTED SURPLUS	**919**	919
RETAINED EARNINGS	**28,822**	21,846
	88,818	81,842
	$302,843	$286,917

Approved on behalf of the Board
Ray D. Wolfe, Director
Philip F. Connell, F.C.A., Director

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)	**Year Ended January 28, 1978 (53 Weeks)**	Year Ended January 22, 1977 (52 Weeks)
Source of Working Capital		
OPERATIONS		
Earnings before extraordinary items	**$ 5,630**	$ 2,621
Items not requiring an outlay of funds:		
Depreciation	**9,812**	8,465
Amortization of goodwill	**98**	89
Amortization of deferred expenses	**117**	75
Deferred income taxes	**(1,253)**	(188)
Equity in net (earnings) of Consumers Distributing Company (National) Limited	**(1,738)**	(585)
Equity in net (earnings) loss of other companies	**(313)**	67
FUNDS FROM OPERATIONS	**12,353**	10,544
OTHER		
Disposal of shares in Consumers Distributing Company (National) Limited	**8,000**	—
Disposal of fixed assets	**2,984**	3,916
Decrease (increase) in loans and mortgages receivable	**(830)**	3,152
Increase (decrease) in long term debt	**(1,306)**	14,073
Decrease (increase) in investments	**1,275**	(7)
Sundry items	**(261)**	441
	22,215	32,119
Use of Working Capital		
Purchase of fixed assets	**11,984**	21,375
Acquisition of shares in Consumers Distributing Company Limited	**3,000**	—
Acquisition of Décarie Square Inc.	**—**	7,584
Dividends	**2,295**	2,295
	17,279	31,254
INCREASE IN WORKING CAPITAL	**4,936**	865
WORKING CAPITAL, BEGINNING OF YEAR	**13,348**	12,483
WORKING CAPITAL, END OF YEAR	**$18,284**	$13,348

The accompanying notes and summary of significant accounting policies are an integral part of the Consolidated Financial Statements.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of The Oshawa Group Limited and subsidiary companies.

The Company has used the purchase method in accounting for all acquisitions.

The interest of a minority shareholder in the operating results of a subsidiary is not significant and is included in cost of sales and expenses in the consolidated statement of earnings.

Translation of Foreign Currencies

Current assets and current liabilities of foreign subsidiaries have been converted to Canadian dollars at rates of exchange prevailing at January 28, 1978; fixed assets with related provisions for depreciation have been converted at rates current at date of acquisition. Income and expense items have been converted at the average rates of exchange prevailing during the year.

Inventories

Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a first-in, first-out basis. Inventories in retail stores are valued at the lower of cost and net realizable value less normal profit margins as determined by the retail method of inventory valuation.

Real Estate Held For Sale

Real estate held for sale is valued at the lower of cost and net realizable value. Cost includes development expenses and carrying charges including, since January 28, 1973, applicable interest on general borrowings.

Fixed Assets and Depreciation

Major enlargements, remodellings and improvements are charged to the appropriate fixed asset accounts. The cost of maintenance and repairs which does not extend the life of the assets is charged against earnings.

Fixed assets are recorded at cost and are depreciated by the straight line method at rates sufficient to amortize the cost of the assets over their estimated useful life as follows:

Classification	Estimated Useful Life
Buildings	20 to 40 years
Equipment	4 to 10 years
Leasehold improvements	term of lease plus first option to a maximum of 20 years

Financing Costs

Financing costs of the Series A Debentures are amortized over the terms of the Debentures.

Goodwill

Goodwill is being amortized by the straight line method over its estimated useful life, not exceeding 40 years.

Development and Pre-opening Expenses

Development and pre-opening expenses of new stores are written off in the year of opening.

Sale of Stores and Properties

Gains and losses on the sale of stores and properties, other than warehouses and similar operating facilities, are considered an integral part of the Company's operations and are included in ordinary income.

Fiscal Year

The fiscal year of the Company ends on the fourth Saturday in January. The current fiscal year consists of 53 weeks and the next 53-week fiscal year will end on January 28, 1984.

Notes to the Consolidated Financial Statements

1. INVESTMENTS

	1978	1977
	(in thousands)	
Shares in Consumers Distributing Company Limited, at cost	$3,000	$ —
Shares in Consumers Distributing Company (National) Limited, equity method	—	2,385
Shares in other companies, equity method	676	503
Real estate joint venture, equity method	32	1,094
Sundry investments, at cost	864	937
	$4,572	$4,919

On January 27, 1978 Consumers Distributing Company (National) Limited purchased for cancellation all of its shares owned by the Company for $8,000,000 as follows:

Cash	$4,500,000
Series A Bond of Consumers Distributing Company (National) Limited, due January 1, 1982. This bond is repayable $1,000,000 annually in each of the years 1979 to 1981 with the balance of $500,000 due in 1982 and bears interest at the rate of 1% over the minimum lending rate of a Canadian chartered bank.	3,500,000
	$8,000,000

On January 27, 1978 the Company purchased 600,000 shares of Consumers Distributing Company Limited for $3,000,000.

2. FIXED ASSETS

	1978	1977
	(in thousands)	
Land	$21,020	$21,311
Buildings	76,680	74,321
Equipment	80,910	77,701
Leasehold improvements	15,236	14,142
	193,846	187,475
Less: Accumulated depreciation	58,507	51,324
	$135,339	$136,151

3. BANK INDEBTEDNESS AND NOTES PAYABLE

Bank indebtedness and notes payable to the extent of $31,861,000 are secured by general assignments of book debts and by a security interest in certain inventories of a subsidiary.

4. LONG TERM DEBT

	1978	1977
	(in thousands)	
Bank indebtedness	$42,000	$36,345
Mortgages payable	13,505	15,820
Series A Debentures	17,000	18,000
5½% Subordinated Convertible Sinking Fund Debentures	—	4,025
	72,505	74,190
Less: Current portion	1,849	2,228
	$70,656	$71,962

PRINCIPAL REPAYMENTS

Principal repayments on long term debt are as follows:

(fiscal year ending in) 1979	$ 1,849
1980	14,624
1981	5,896
1982	24,947
1983	2,120
1984-2002	23,069
	$72,505

BANK INDEBTEDNESS

The bank indebtedness consists of a loan of $13,000,000 payable in 1979, a loan of $5,000,000 payable in 1980 and a loan of $24,000,000 payable in 1981. These loans are secured by mortgages on shopping centres and bear interest at rates varying from prime to prime plus 2½%.

MORTGAGES PAYABLE

These are secured by certain real estate, bear interest at an average rate of 9.4% per annum and provide for principal repayments from 1978 to 2002.

SERIES A DEBENTURES

These debentures are secured by a floating charge on the undertaking and assets of the Company and consist of the following:

Description	Interest Rate	Maturity Date	1978	1977
			(in thousands)	
Series A Serial Debentures	8¼%	$1,000,000 on June 15 in each of the years 1978 and 1979	$ 2,000	$ 3,000
Series A Sinking Fund Debentures	9¼%	June 15, 1991	15,000	15,000
			$17,000	$18,000

The Serial Debentures are not redeemable prior to maturity. The Company has covenanted to retire $10,000,000 principal amount Sinking Fund Debentures prior to maturity as follows:

1978 and 1979	$ 250,000 in each year
1980 to 1982	500,000 in each year
1983 to 1990	1,000,000 in each year

In addition to the mandatory sinking fund payments referred to above, the Company has the non-cumulative right to retire up to $500,000 principal amount of Sinking Fund Debentures in each of the years 1978 to 1985.

5. CAPITAL STOCK

CLASS A SHARES

The Class A shares are non-voting, participating and are entitled to a non-cumulative annual dividend of 1¼¢ per share in priority to payment of dividends on the common shares.

The Company has reserved 347,700 Class A shares for issue under the Executives' and Key Employees' Plan 1966. As at January 28, 1978, options for 2,320 Class A shares were outstanding under this plan, exercisable to November 30, 1978 at prices ranging from $9.80 to $12.50 per share.

The Company has reserved 630,063 Class A shares for the exercise of the Series A Warrants.

SERIES A WARRANTS

The Company has authorized the issue of Series A Warrants entitling the holders thereof to purchase in the aggregate 700,000 Class A shares. The holder of each warrant is entitled to purchase one Class A share up to February 28, 1979 at a price of $75 per share.

As at January 28, 1978, 630,063 Series A Warrants were outstanding.

6. SALES

Sales for each of the major segments of the Company's business were as follows:

	1978		1977	
	Amount	%	Amount	%
	(in thousands)		(in thousands)	
Wholesale Food	$ 542,828	45	$ 471,630	44
Retail Food	334,913	28	313,442	29
Institutional Food	67,842	5	58,884	5
General Merchandise	248,087	21	225,147	21
Other	12,135	1	8,472	1
	$1,205,805	100	$1,077,575	100

7. INTEREST EXPENSE

	1978	1977
	(in thousands)	
Interest on long term debt	$ 6,799	$ 6,410
Other interest	4,520	5,076
	11,319	11,486
Less: Interest capitalized to cost of real estate	1,397	3,109
Interest expense for year	$ 9,922	$ 8,377

8. INCOME TAXES

The 3% inventory allowance for income tax purposes has reduced income taxes otherwise applicable to earnings from operations by $1,228,000 (18¢ per share) and earnings reported on an equity basis by $210,000 (3¢ per share).

9. EXTRAORDINARY ITEMS

	1978	1977
	(in thousands)	
Gain on disposal of 50% interest in Consumers Distributing Company (National) Limited	$3,826	$ —
Gain on disposal of 50% interest in Dispenser Division less income taxes of $82,000	—	379
Other items	(185)	—
	$3,641	$379

10. LEASES

The total minimum rentals payable for store locations, office and warehouse facilities and equipment (exclusive of additional amounts based on percentage of sales, taxes, insurance and other occupancy charges) under long term leases in effect at January 28, 1978 for each of the periods shown below are as follows:

	(in thousands)
(fiscal year ending in) 1979	$15,485
1980-1984	70,638
1985-1989	54,060
1990-1994	46,398
after 1994	39,744

In addition, the Company has signed leases or agreements to lease for new locations and other facilities which when occupied will have minimum annual rentals of $312,000.

It is expected that rental revenue of $4,232,000 will be received in the fiscal year ending January 27, 1979 from locations which have been sublet.

11. PENSION PLANS

Pension costs included in the consolidated statement of earnings represent current service contributions. There is no unfunded past service liability.

12. CONTINGENT LIABILITIES

(a) The Company has guaranteed long term leases of Consumers Distributing Company (National) Limited having minimum annual rentals of $1,156,000. The Company has been indemnified by Consumers Distributing Company Limited against any liabilities or costs which may be incurred under these guarantees.

(b) The Company has guaranteed one-half of any deficiency between net rental income and the payment of principal, interest and taxes required under a mortgage loan having a balance of $8,351,000 at January 28, 1978. The Company has received an indemnity against any losses which may be suffered under this guarantee.

(c) A legal action claiming damages for $1,286,000 has been instituted against the Company for an alleged failure to honour a commitment to lease in a shopping centre. In the opinion of counsel, based on the facts now known, the most probable outcome of this action if it were to proceed to trial would be the dismissal of plaintiff's action.

13. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration during the year of directors and senior officers, as defined by The Business Corporations Act, Ontario, was $1,745,000 (1977 — $1,279,000).

14. ANTI-INFLATION LEGISLATION

The Company is subject to controls on profit margins, prices, dividends and compensation under the terms of the Anti-inflation Act and Regulations.

15. COMPARATIVE FIGURES

The comparative figures for the previous year have been reclassified where necessary to conform with the current year's presentation.

Ten Year Comparative Summary

Year Ended	Sales	Amortization and Depreciation	Income Taxes **	Earnings Before Extraordinary Income **	Earnings Per Share Before Extraordinary Income *	Earnings Before Extraordinary Income as a % of Sales	Net Earnings **	Net Earnings Per Share ***†	Cash Flow From Operations **	Total Dividends	Dividends Per Share	Reinvested in Business **
Jan. 28, 1978	$1,205,805	$10,027	$1,719	$5,630	$ .83	.47	$9,271	$1.37	$12,353	$2 295	34.0¢	$6,976
Jan. 22, 1977	1,077,575	8,629	2,073	2,621	.39	.24	3,000	.44	10,544	2,295	34 0	705
Jan. 24, 1976	1,023,857	8,135	7,428	7,196	1.07	.70	7,425	1.10	16,802	2 295	34 0	5 130
Jan. 25, 1975	866,518	7,243	7,412	7,158	1.03	.83	9,084	1.31	16,361	2 336	34 0	6 746
Jan. 26, 1974	697,583	5,976	6,994	7,622	1.08	1.09	7,584	1.08	15,603	2 394	34 0	5 190
Jan. 27, 1973	600,385	7,485	5,433	6,825	.97	1.14	8,374	1.19	13,061	2 110	30 0	6 264
Jan. 22, 1972	490,381	6,493	5,783	6,104	.87	1.24	6,181	.88	11,732	1 748	25 0	4 433
Jan. 23, 1971	469,771	6,104	6,082	4,891	.70	1.04	5,099	.73	10,718	1 747	25 0	3 352
Jan. 24, 1970	445,175	5,061	7,926	7,039	1.01	1.58	7,508	1.08	12,729	1,528	22.0	5 980
Jan. 25, 1969	298,684	3,543	5,709	5,260	.94	1.76	5,791	1.03	8,838	1 020	18 0	4 771

Year Ended	Shares *†	Shareholders' Equity **	Share-holders' Equity Per Share ***†	High-Low Stock Price	Total Assets	Current Assets	Current Liabilities **	Working Capital **	Current Ratio **	Salaries, Wages, Benefits	Number of Regular Employees At Year End
Jan. 28, 1978	6,749,904	$88,818	$13.16	5½- 3⅜	$302,843	$153,861	$135,577	$18,284	1.13:1	$127,447	6,919
Jan. 22, 1977	6,749,904	81,842	12.12	5⅝- 3	286,917	137,495	124,147	13,348	1 11.1	112,606	6,909
Jan. 24, 1976	6,749,904	81,137	12.02	6¾- 4	254,682	131,293	118,810	12,483	1.11 1	102,967	7,338
Jan. 25 1975	6,931 772	76,007	10.97	8 -3⅝	236,122	115,629	108,047	7,582	1 07 1	85 139	6,910
Jan. 26, 1974	7,041,816	70,733	10.04	11⅝- 6	199,488	96,194	79,012	17,182	1 22·1	69 424	6,169
Jan. 27, 1973	7,024,990	66,245	9.43	14¾-10¼	169,111	75,743	58,322	17,421	1 30 1	57 920	6,246
Jan. 22, 1972	6,991,515	61,270	8.76	14⅜- 8¾	156,357	59,775	44,003	15,772	1 36 1	50 169	5,602
Jan. 23, 1971	6,981,908	56,751	8.13	25⅛- 9½	120,369	57,356	50,115	7,241	1 14 1	46 881	6,316
Jan. 24, 1970	6,942,502	53,225	7.67	36⅜-22	103,769	47,176	38,629	7,547	1 22 1	40 794	7,011
Jan. 25, 1969	5,609,276	36,490	6.51	45¾-27¼	77,133	40,591	30,804	9,787	1.32 1	27 705	4,791

*Combined Class A and Common

†Net Earnings Per Share and Shareholders' Equity Per Share have been calculated on the average number of shares outstanding during the year rather than on the shares outstanding at the end of the year

**The comparative figures have been restated to give effect to income tax adjustments of prior years

Oshawa's Canadian Operations

Manitoba, Saskatchewan & Northwestern Ontario

IGA Associates	95
Other Franchise Food Markets	369
Company-owned Food Markets	14
Non-affiliated Food Markets	819
Distribution Centres	6

Ontario

IGA Associates	144
Other Franchise Food Markets	45
Company-owned Food Markets	61
Non-affiliated Food Markets	50
Department Stores	31
Drug Marts	13
Pharmacies	25
Health & Beauty Aid Stores	6
Restaurants & Snack Bars	43
Gas Bars	7
Distribution Centres	10

Quebec

IGA-Boniprix Associates	89
Other Franchise Food Markets	137
Company-owned Food Markets	19
Non-affiliated Food Markets	330
Department Stores	9
Restaurants & Snack Bars	15
Distribution Centres	3
Gas Bar	1

Atlantic Provinces

IGA Associates	38
Company-owned Food Markets	4
Non-affiliated Food Markets	84
Combination Food & Department Stores	2
Department Stores	2
Drug Mart	1
Restaurants & Snack Bars	8
Distribution Centres	2

● Distribution Centres

Directors, Management and Salient Data

Max Wolfe
Honorary Chairman of the Board

Directors

Ray D. Wolfe
Chairman of the Board
William L. Atkinson
* Philip F. Connell, F.C.A.
Murray C. Goldman
Charles Perrault, M.Eng.
* Albert Shifrin, Q.C.
* Arthur J. R. Smith, Ph.D., D.U.C., LL.D.
Harold J. Wolfe
Harvey S. Wolfe
Jack B. Wolfe
* Audit Committee

Officers

Ray D. Wolfe
Chairman and President
Philip F. Connell, F.C.A.
Senior Vice President and Chief Financial Officer
Leonard Eisen, C.A.
Treasurer
Harold J. Wolfe
Secretary

Corporate Management

Ray D. Wolfe
Chairman and President

Philip F. Connell, F.C.A.
Senior Vice President and Chief Financial Officer
Allister P. Graham
Group Vice President Food Divisions
William H. Holman
Senior Vice President Operations
Jack B. Wolfe
Group Vice President Institutional Food

E. Leonard Besler, C.A.
Corporate Controller
Charles Comrie
Vice President Personnel
Sam Crystal
Vice President Public Affairs
Leonard Eisen, C.A.
Treasurer
Murray C. Goldman
Vice President Development
G. Michael Moffat
Vice President Planning

Operating Divisions
Wholesale and Retail Food —
BOLANDS
Dartmouth, Nova Scotia
Leif Christensen
President and General Manager
CODVILLE DISTRIBUTORS
Winnipeg, Manitoba
Max Hatch
President and General Manager
HUDON ET DEAUDELIN LTÉE
Montreal, Quebec
Jean-Guy Deaudelin
President and General Manager
ONTARIO FOOD DIVISION
Toronto, Ontario
Allister P. Graham
Vice President and General Manager

General Merchandise —
TOWERS DEPARTMENT STORES
Toronto, Ontario
William L. Atkinson
Chairman and Chief Executive Officer
Jack Genser
President
KENT DRUGS LIMITED
Toronto, Ontario
Ab Flatt
President
RESTAURANT DIVISION
Toronto, Ontario
Redmond J. Langan
Vice President and General Manager

Institutional —
BRADFORD PACKING CENTRE
Bradford, Ontario
Glen Henderson
Manager
DOMINION MUSHROOM COMPANY
Pickering, Ontario
Nate Tickner
Manager
HICKESON-LANGS SUPPLY COMPANY LIMITED
Toronto, Ontario
Charles Davies
President and General Manager
LANGS COLD STORAGE
Hamilton, Ontario
Ken Edworthy
General Manager
MODEL LAUNDRY
Toronto, Ontario
Carlo Bryce
General Manager
THE ONTARIO PRODUCE COMPANY
Toronto, Ontario
Vern T. Barber
President
THE WHITE & COMPANY
Toronto, Ontario
Vance Graham
Manager

Services —
COINAMATIC LAUNDRY EQUIPMENT LIMITED
London, U.K.
Robin H. Phillips, F.C.A.
Managing Director

Registrar and Transfer Agents —
Class A Shares and Series A Debentures
The Canada Trust Company,
Toronto, Montreal, Calgary, Vancouver and Regina

Auditors
Wm. Eisenberg & Co., Toronto

Bankers
Canadian Imperial Bank of Commerce
Mercantile Bank of Canada
Bank of Montreal
Bank of Nova Scotia
Toronto-Dominion Bank

Listed On
Toronto Stock Exchange
Montreal Stock Exchange

Head Office
302 The East Mall
Islington, Ontario
Canada
M9B 6B8

The Oshawa Group Limited

midyear report

for the 28 weeks ended
August 12, 1978

The Oshawa Group Limited
302 The East Mall
Islington, Ontario
M9B 6B8

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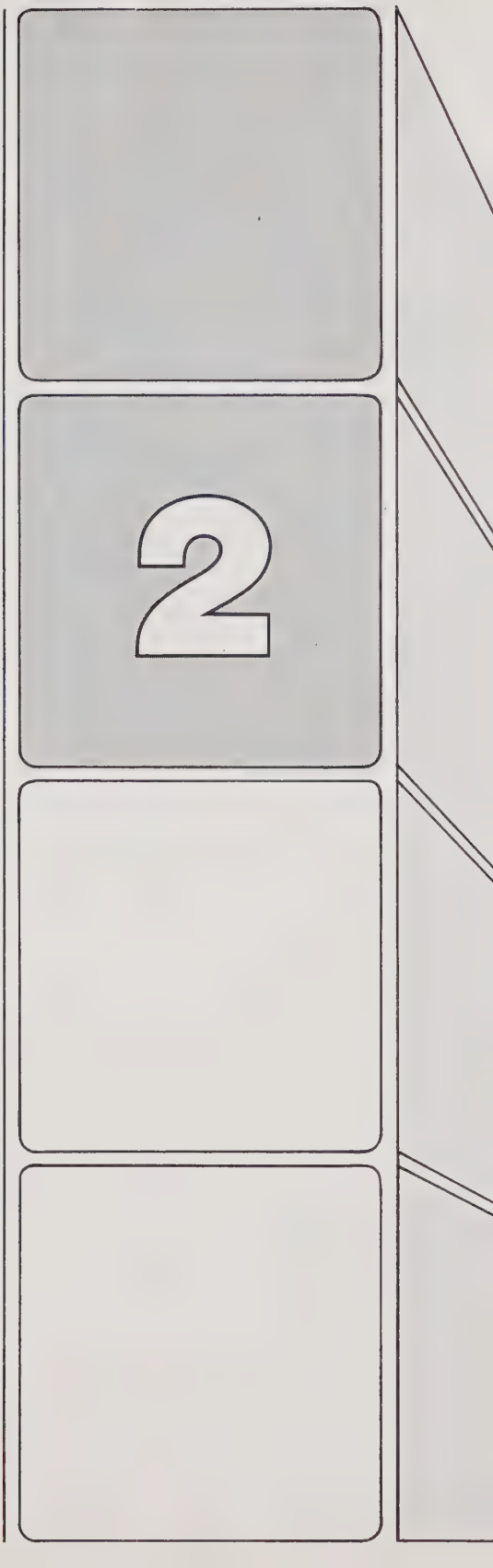

Oshawa

Operating Results

Net earnings of $1,972,000 (30 cents per share) for the second quarter compared with $1,059,000 (15 cents per share) in the same period of 1977. For the 28 weeks in 1978, net earnings amounted to $2,073,000 (31 cents per share), an increase of $2,323,000 (35 cents per share) over the same period last year. There were no extraordinary items in 1978 or 1977. All operating groups reported improved results with Towers Department Stores accounting for the largest portion of the total improvement.

Consolidated sales of $694,755,000 reflected a 14% increase over the same 28 weeks last year.

Working capital of $18,753,000 at August 12, 1978 compared with $18,284,000 at the beginning of the year and $14,419,000 a year ago.

Expansion

Construction has commenced on a new 260,000 square foot warehouse in Winnipeg for the Codville Division with a completion date of mid-1979. A 20,000 square foot addition to the London, Ontario cold storage plant is nearing completion.

Outlook

Current economic uncertainties complicate forecasting. However, present expectations are that earnings for the year will exceed those of last year.

R. D. Wolfe
Chairman and President

September 20, 1978

Oshawa

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D. Wolfe
airman and President

ptember 20, 1978

The Oshawa Group Limited and Subsidiary Companies

Consolidated Statement of Earnings

(thousands of dollars)

	Second Quarter Ended		28 Weeks Ended	
	August 12, 1978	August 6, 1977	**August 12, 1978**	August 6, 1977*
Sales	**$410,191**	$364,801	**$694,755**	$609,457
Earnings (loss) before income taxes	**3,071**	1,364	**2,631**	(1,654)
Income taxes (recoverable)	**1,099**	305	**558**	(1,404)
Net earnings (loss)	**$ 1,972**	$ 1,059	**$ 2,073**	$ (250)
Per share				
Net earnings (loss)	**$ .30**	$ .15	**$ .31**	$ (.04)

Notes: 1. (*) 1977 figures have been restated to give effect to income tax reductions for the 3% inventory allowance.
2. All figures are unaudited and subject to year-end adjustments.
3. Fully diluted earnings (loss) per share is the same as reported above.

The Oshawa Group Limited and Subsidiary Companies

Consolidated Statement of Changes in Financial Position

(thousands of dollars)

	28 weeks ended **August 12, 1978**	August 6, 1977*
Source of Working Capital		
Operations		
Net earnings (loss)	**$ 2,073**	$ (250)
Items not requiring an outlay of funds:		
Depreciation	**5,514**	5,248
Amortization of goodwill	**52**	50
Amortization of deferred expenses	**26**	55
Deferred income taxes	**296**	601
Equity in net (earnings) of other companies	**(69)**	(170)
Total funds from operations	**7,892**	5,534
Other		
Reduction of loans and mortgages receivable	**593**	723
Decrease in investments	**285**	645
Sundry items	**51**	15
	8,821	6,917
Use of Working Capital		
Purchase of fixed assets less disposals	**5,916**	3,225
Decrease in long term debt	**1,289**	1,372
Dividends	**1,147**	1,147
Sundry items	**–**	102
	8,352	5,846
Increase in Working Capital	**469**	1,071
Working capital at beginning of year	**18,284**	13,348
Working capital at end of period	**$ 18,753**	$ 14,419

Le Groupe Oshawa Limitée et ses filiales

État consolidé de l'évolution de la situation financière

(en milliers de dollars)

	Période de 28 semaines terminée le	
	12 août 1978	6 août 1977 *
Provenance du fonds de roulement		
Exploitation		
Bénéfice net (perte nette)	**$ 2,073**	$ (250)
Postes n'entraînant pas de sortie de fonds:		
Amortissement	**5,514**	5,248
Amortissement de l'achalandage	**52**	50
Amortissement de frais reportés	**26**	55
Impôts sur le revenu reportés	**296**	601
Part du bénéfice net (de la perte nette) d'autres compagnies	**(69)**	(170)
Total des fonds provenant de l'exploitation	**7,892**	5,534
Autres		
Diminution des prêts et hypothèques à recevoir	**593**	723
Diminution des investissements	**285**	645
Divers	**51**	15
	8,821	6,917
Utilisation du fonds de roulement		
Achat d'immobilisation moins ventes	**5,916**	3,225
Diminution de la dette à long terme	**1,289**	1,372
Dividendes	**1,147**	1,147
Divers	**–**	102
	8,352	5,846
Augmentation du fonds de roulement	**469**	1,071
Fonds de roulement au début de l'exercice	**18,284**	13,348
Fonds de roulement à la clôture de la période	**$ 18,753**	$ 14,419

Le Groupe Oshawa Limitée et ses filiales

État consolidé du bénéfice

(en milliers de dollars)

	Deuxième trimestre terminé le		Période de 28 semaines terminée le	
	12 août 1978	6 août 1977	**12 août 1978**	6 août 1977 *
Chiffre d'affaires	**$410,191**	$364,801	**$694,755**	$609,457
Bénéfice (perte) avant impôts sur le revenu	**3,071**	1,364	**2,631**	(1,654)
Impôts sur le revenu (à recouvrer)	**1,099**	305	**558**	(1,404)
Bénéfice net (perte nette)	**$ 1,972**	$ 1,059	**$ 2,073**	$ (250)
Par action:				
Bénéfice net (perte nette)	**$ .30**	$ .15	**$ .31**	$ (.04)

Remarques: 1. (*) Les chiffres de 1977 ont été redressés pour refléter les allègements fiscaux en vertu de la déduction pour stock de 3%.

2. Tous les chiffres sont non vérifiés et sont assujettis à des redressements de fin d'exercice.
3. Le bénéfice (la perte) entièrement dilué(e) par action est le (la) même que signalé(e) ci-dessus.

Résultats d'exploitation

Le bénéfice net s'est élevé à $1,972,000 (soit 30 cents par action) au second trimestre contre $1,059,000 (soit 15 cents par action) pour la même période en 1977. Pour la période de 28 semaines de 1978, le bénéfice net s'est élevé à $2,073,000 (31 cents par action), soit une augmentation de $2,323,000 (35 cents par action) par rapport à la même période de l'exercice précédent. Il n'y a eu aucun poste extraordinaire en 1978 ni en 1977. Toutes les catégories d'exploitation ont amélioré leurs résultats, particulièrement les magasins Towers qui sont responsables de la plus grande partie de ce progrès général.

Le chiffre d'affaires consolidé de $694,755,000 a reflété une augmentation de 14% par rapport à la même période de 28 semaines de l'exercice précédent.

Le fonds de roulement s'élevait à $18,753,000 le 12 août 1978 contre $18,284,000 au début de l'exercice et $14,419,000 il y a un an.

Expansion

À Winnipeg, les travaux de construction d'un nouvel entrepôt de 260,000 pieds carrés pour la Division Codville ont commencé et l'achèvement est prévu vers le milieu de 1979. L'agrandissement de 20,000 pieds carrés de l'entrepôt frigorifique de London (Ontario) est en voie d'achèvement.

Perspectives

Les incertitudes qui planent à l'heure actuelle sur la conjoncture rendent difficile toute prévision. Nous pouvons toutefois d'ores et déjà anticiper que le bénéfice de l'exercice en cours dépassera celui de l'exercice précédent.

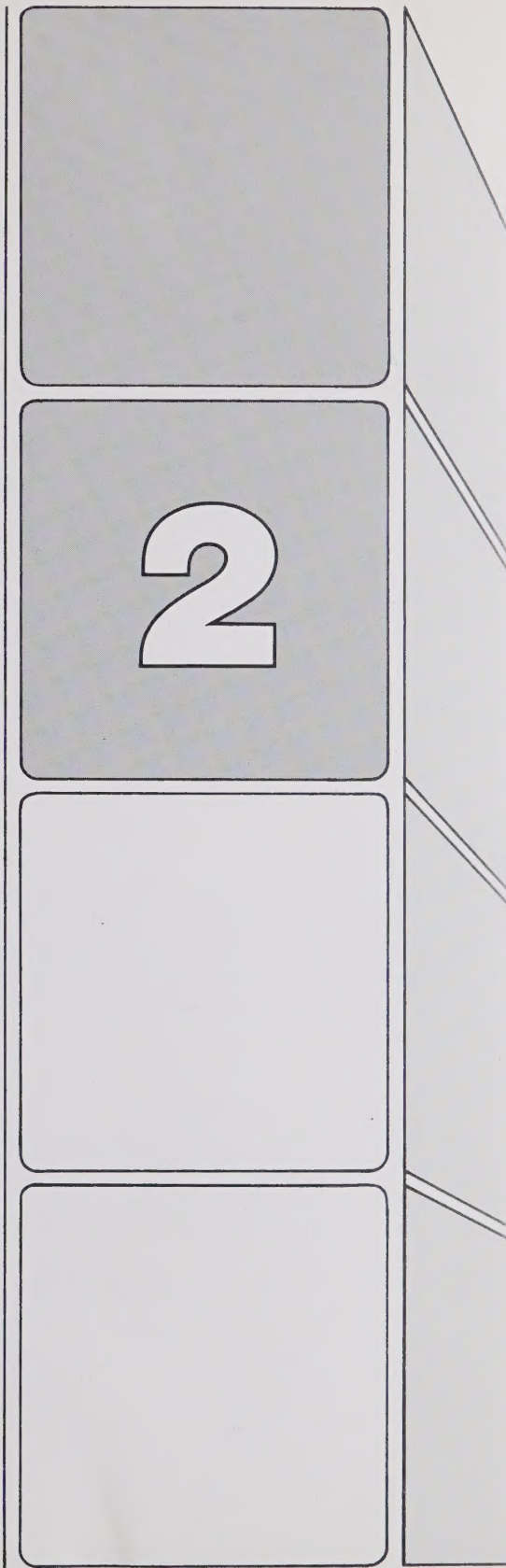
Le président du conseil et président
R. D. Wolfe

Le 20 septembre 1978

rapport semi-annuel

des 28 semaines terminées
le 12 août 1978

Le Groupe Oshawa Limitée
302 The East Mall
Islington, Ontario
M9B 6B8



Oshawa